**Example 1**

**THE IMPACT OF THE TAX REFORM ACT OF 1986 ON THE REAL ESTATE   
AND SAVINGS AND LOAN INDUSTRIES**

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**ABSTRACT**

The Tax Reform Act of 1986 dramatically restructured many aspects of the taxation of income, particularly income from real estate rentals. Among the unintended consequences of this tax reform was a dramatic reduction in the most probable sales prices of income-producing properties. As a consequence of that reduction in prices, many investment properties experienced situations where the value decline was sufficient to leave a mortgage on the property that was greater than the price the property was likely to sell for. Many property owners in that situation chose to default on their loans. Since the value of the property was less than the mortgage value, significant losses for the lenders occurred. During the years immediately following the legislation, there was a near collapse of the savings and loan industry resulting from these loans’ loses.

**INTRODUCTION**

The Tax Reform Act of 1986 (TRA) had a profound impact upon the real estate industry and as a result, the Savings and Loan Industry. It has often been suggested that the collapse of the industry during the late 1980s and early 1990s was a result of poor management, fraud and incompetent appraisals. This paper will suggest that another substantial reason for the Savings and Loan difficulties during the late 1980s and early 1990s were the losses incurred through the default of real estate loans caused by the loss in values of the properties used as collateral for those loans.

This paper will show how the values decreased by about 29-31% as a result of the reduction in after-tax income from the implementation of the 1986 Tax Reform Act. With typical loan-to-value ratios of 80%, this reduction left little or no equity in many properties. In addition, where there were market weakness from overbuilding and a decline in the oil industry, many property owners found that they were unable to collect as much rent as they had forecast. When faced with little or no equity in the properties and negative cash flows, many defaulted. These defaults had an even more negative impact as they began a downward spiral in values as the supply of properties increased. As the lenders sold more properties in an attempt to recover on the defaulted loans, prices were driven downward even more. As prices fell further, more owners found themselves paying on mortgages that were greater than the values of the properties that secured them. This spiraling decline became so severe in some markets that prices dropped as much as 75%.

To understand how this occurred, it is important to return to the end of the Carter Administration in 1980. At that time, the top marginal tax bracket was very high (70%). Taxable income losses from real estate operations could be used to offset earned income without significant limitation. Many doctors and other high income earners sought out real estate investments and structured them so that they would have a positive cash flow but a negative taxable income…

**REFERENCES**

Shenkman, M. M. (1987). Investing in Real Estate After Tax Reform. *Chief Executive, 39,* 54-59.

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**EXAMPLE 2**

… Based on the acculturation score, each individual was categorized into either the high level (HHIA) or low level (HLIA) of acculturation. A respondent with an acculturation score greater than the median (17) was included in the HHIA and those with acculturation scores less than or equal to the median were placed in the HLIA category. Acculturation scores ranged from 3 to 28. The result was 73 respondents in the high acculturated group (HHIA) and 75 in the low acculturated group (HLIA).

**Dependent Variable**

The question used to measure hypotheses one and two was, “Where are you most likely to get information on paint? I’ll read a list and you tell me the ones that apply to you.” Each item was read to the respondent, who then indicated a yes or no in response to each source. The following information source choices were provided: (1) newspaper, (2) sales circulars, (3) television, (4) neighbor or friend, (5) at a store that sells paint, (6) internet, (7) radio, (8) magazine, (9) other.

**RESULTS**

There were no significant differences between Anglos (mean=.1214) and Hispanics (mean=.1489) in their reported usage of television as sources of information on paint, F(1, 279)=.452, p>.05. Radio usage showed no significant differences for the groups studied: Anglos (mean=.0286); Hispanics (mean=.0213); F(1, 279)=.153, p>.05). Further analysis revealed no differences between Hispanics high in acculturation (HHIA) (mean=.0282) and those low in acculturation (HLIA) (mean=.0143); F(1, 279=.322) p>.05. for radio as a source of information. There was marginal significance for differences between Hispanics high in acculturation (HHIA) (mean=.0986) and Hispanics low in acculturation (HLIA) (mean=.20) on television usage F(1,279)=2.878. These results are summarized in Table 1.

**Table 1**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **H1 - Television** | **N** | **No** | **Yes** | **Mean** | **F** | **Sig.** |
| Anglo | 140 | 123 | 17 | .1214 | .452 | .502 |
| Hispanic | 141 | 120 | 21 | .1489 |  |  |
| **H1 - Radio** |  |  |  |  |  |  |
| Anglo | 140 | 136 | 4 | .0286 | .153 | .696 |
| Hispanic | 141 | 138 | 3 | .0213 |  |  |
| **H2- Television** |  |  |  |  |  |  |
| HHIA | 71 | 64 | 7 | .0986 | 2.878 | .092 |
| HLIA | 70 | 56 | 14 | .2 |  |  |
| **H2- Radio** |  |  |  |  |  |  |
| HHIA | 71 | 69 | 2 | .0282 | .322 | .571 |
| HLIA | 70 | 69 | 1 | .0143 |  |  |

**ANOVA Summary for Hypotheses 1 and 2**

The ANOVA revealed no significant differences between Hispanics and Anglos in using the newspaper F(1, 279)=1.338, p>.05; neighbors or friends F(1, 279)=.199, p>.05; or magazines F(1, 279)=.238, p>.05 as sources of information for paint. There were significant differences between …